

Message Text

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 727

UNCLAS HONG KONG 5369

E.O. 11652 N/A

TAGS: EFIN HK

SUBJECT: BANK BOOSTS STOCK MARKET

REF: HK 4929

SUMMARY: REVERSING A POLICY IN EFFECT SINCE OCTOBER 1972, THE COLONY'S LARGEST BANK HAS ANNOUNCED RESUMPTION OF LOANS AGAINST STOCK COLLATERAL FOR REINVESTMENT IN THE MARKET. THIS LED TO A MARKET ADVANCE THAT HAS PROVIDED A LIMITED BUT WELCOME MEASURE OF RELIEF TO THE FINANCIAL COMMUNITY HERE. END SUMMARY.

1. THE HONG KONG AND SHANGHAI BANK, THE COLONY'S LARGEST BANK, ANNOUNCED MAY 3 THAT IT WOULD ALLOW ESTABLISHED CUSTOMERS TO BORROW UP TO 50 PERCENT OF THE FACE VALUE OF STOCKS LODGED AS COLLATERAL. THE CEILING FOR SUCH LENDING WOULD BE HK\$100,000 (ABOUT US\$20,000), AND WOULD BE AT THE "NORMAL" 12 PERCENT INTEREST. MICHAEL SANDBERT, DEPUTY CHAIRMAN OF THE BANK, COMMENTED THAT THIS DECISION WAS TAKEN BECAUSE THE STOCK MARKET HAD REACHED AN ATTRACTIVE LEVEL OF INVESTMENT. THE BANK THUS REVERSED A RESTRICTIVE POLICY IN EFFECT SINCE OCTOBER 1972, AND ENCOURAGED IN EARLY 1973, WHEN THE BANKING COMMISSIONER INSTRUCTED LOCAL BANKS TO

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KEEP LENDING FOR SECURITIES TO A MAXIMUM OF 20 PERCENT OF

TOTAL ADVANCES IN ORDER TO DAMP DOWN THE STOCK MARKET BOOM.

2. THE BANK'S ANNOUNCEMENT CONTRIBUTED TO A SPURT IN THE MARKET. THE HANG SENG INDEX, WHICH HAD RECOVERED TO 300 ON MAY 2 FROM THE PREVIOUS DAY'S LOW OF 290 (REFTEL), ROSE TO 329 ON MAY 6, THAN FELL BACK TO 329 ON MAY 13. TURN-OVER KEPT PACE, RISING FROM 38 MILLION SHARES TO 81 MILLION, THEN BACK TO 22 MILLION.

3. OBSERVERS COMMENT THAT THE BANK'S ANNOUNCEMENT GAVE A TIMELY PSYCHOLOGICAL BOOST TO THE MARKET, BUT THAT THIS HAS NOT BEEN SUSTAINED GIVEN THE HIGH RATE CHARGED FOR LOANS, RESTRICTION OF THE BANK'S LENDING TO ESTABLISHED CUSTOMERS AND TO BLUE CHIPS, MORE ATTRACTIVE INVESTMENTS ELSEWHERE, AND CONTINUED UNCERTAINTY GIVEN THE HIGH PRICE OF OIL. ALTHOUGH THE BANK'S NEW POLICY HAS NOT PER SE BEEN SUFFICIENT TO BOUNCE THE MARKET VERY FAR, IT HAS AFFORDED SOME RELIEF--AND SOME PROFITS--TO THE FINANCIAL COMMUNITY IN HONG KONG.
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